

Governor's Commission on Family Farms

Meeting Minutes

September 25, 2002

The Governor's Commission on Family Farms met on Wednesday, September 25, 2002 in the Brown- Foreman Room of the Kentucky History Center in Frankfort, Kentucky. Joel Neaveill called the meeting to order.

Members Present:

Bill Atkins; John Berry; John-Mark Hack; Jeff Hall; James Kirby Hancock; Denise Hoffman; Janet Johnson; Ms. Mattie Mack; Dr. Jennifer Marsh; Luther Mason; Charles Miller; Steve Moore; Jim Naïve; William Brandon Reed; Susan Goddard designee for Secretary Allen Rose; Harvey Mitchell designee for Commissioner Billy Ray Smith; Dr. Robert Sparks

Members Absent:

Alice Woods Baesler; Sharon Furches; Don Halcomb; Susan Harkins; David Kash; Sylvia Lovely; Kenneth Mattingly; John Medley; Al pedigo; Bonnie Tanner

Guest:

Mrs. Dena Wilson

Governor's Office of Agricultural Policy Staff Present:

Joel Neaveill; Jeff Harper; Edith Fultz

Welcome and Opening Remarks:

Joel Neaveill - Introduced Edith Fultz as the administrative support person for the Governor's Commission on Family Farms and the KARDA Board. He also introduced Steve Moore as the replacement for Ron Catchen, who resigned from the Governor's Commission on Family Farms. He told us that Mr. Moore came highly recommended by the University of Kentucky Cooperative Extension Service and he is the Agricultural Agent from Henry County. Mr. Neaveill welcomed us and asked for the roll call.

Mattie Mack - Introduced her minister's wife, Mrs. Dena Wilson.

John-Mark Hack – Welcomed the members and guest. He also commented on the situation that Governor Patton finds himself in. He told us that it is his hope, that given what Governor Patton has contributed to the Commonwealth the last seven

years of his term and in particular, to the constituency about whom most of us care the most, that our focus is going to be on his accomplishments. These accomplishments are a result of his tenacity and his commitment to the better of the Commonwealth. Mr. Hack told us that the focus of his staff and himself is going to be on the accomplishments of the Agricultural Development Board, the Governor's Commission on Family Farms and every other group that we are involved in. We are not going to engage in any sort of speculation on a public or private basis that isn't related to the accomplishments of each of those groups.

Mr. Hack also gave a slide presentation on the Agricultural Development Board to update where we stand with respect to the Agricultural Development Fund. He reminded the commission that the guiding philosophy that the board has followed throughout its existence was authored collectively in a retreat that the Board took in September of 2000. He showed us this philosophy and reviewed the guiding principals that the Board wrote during that retreat. He shared with the Commission the consistency between this investment, the Board's guiding principles and it's actions over the past two years.

Investment Philosophy:

The Kentucky Agricultural Development Board will invest monies from the Kentucky Agricultural Development Fund in innovative proposals that increase net farm income and affect tobacco farmers, tobacco-impacted communities and agriculture across the state through stimulating markets for Kentucky agricultural products, finding new ways to add value to Kentucky agricultural products and exploring new opportunities for Kentucky farms and farm products.

Guiding Principles:

- ?? The Board cannot solve all the problems or take advantage of all opportunities presented to it at once.
- ?? The Board should invest in programs on a pilot basis, to prove or disprove the advisability of promoting a particular program statewide.
- ?? The Board should focus on facilitating success in areas with the potential to reach the most farmers.
- ?? Pilot programs should be large enough to be commercially viable. The emphasis must be on doing what we do well.
- ?? The Board believes that clusters of a particular type of activity large enough to be economically viable and support the infrastructure necessary for the success of the program offers the best opportunity to develop new or better self-sustaining agricultural activity.
- ?? The Board believes that farmer-owned cooperatives will be an important vehicle to promote and sustain new and/or improved farm activity.

- ?? The Board will consider proposals submitted by individuals that have a high potential for growth and potential to include other farmers in the future.
- ?? An emphasis for county programs should be the support of on-farm investment consistent with priority areas designated by state and county comprehensive agricultural development plans.
- ?? The Board may provide some support for on-farm investments in cooperation with a county council.
- ?? The object of the board is to develop self-sustaining programs. Therefore, the Board will not support long-term subsidy of production.
- ?? The Board prefers capital investments. However, the Board will consider temporarily subsidizing operating costs provided the business plan provides for the phase out of the subsidy.
- ?? The Board believes that processing, storing and marketing new products is the area where the farmer needs a substantial amount of help on a start-up basis, but business plans must provide for the eventual elimination of assistance in these areas.

Agricultural Development Board Members:

Governor Paul E. Patton, Chairman - It has been largely because of the Governor's leadership that this fund and these opportunities exist. This is the largest state financed agricultural diversification effort ever in the History of the United States. Commissioner Billy Ray Smith, serves as the Vice-Chair; Secretary Gene Strong, Economic Development Cabinet who is represented at the meetings by Smith Mitchell; Dr. Scott Smith, Dean of the University of Kentucky College of Agriculture/ Director of the Extension Service; Wayne Hunt is an agribusiness man and farmer from Christian County; Sam Moore is the Farm Bureau representative and President of that organization. Farm Bureau has been instrumental in informing Kentucky farmers about opportunities available through this fund. Farm Bureau is promoting projects such as The Kentucky Wool Society and Kentucky State Universities' work with the Kentucky Beekeepers Association and the Agricultural Diversification program in a number of different counties; Sam Lawson is the Kentucky Chamber of Commerce representative; Larry Clay runs a very innovative cattle operation on reclaimed strip-mined land in Perry County; Willa Poynter is from Mason County; Susan Harkins who also serves as a member of the Commission; Danny Case, is the agricultural lender on the Board; Eddie Sellers is a farmer from Woodford County, Mike Slaughter is a farmer from Hart County, Vicki Yates Brown, is the Attorney with a rural background and knowledge of agricultural policies. Seth Conner is from Hickman County.

Agricultural Development Fund:

50% of Kentucky's Master Settlement Agreement Funds
 2002 Biennium total commitment \$180,250,000

2004 Biennium total commitment \$117,400,000 - Budget not yet passed

Current Fiscal Years 2003 and 2004

65% or \$76.3 million to state-level projects

- ?? \$18 million in environmental cost share assistance
- ?? \$8.3 million for debt service on water line extension bond issue authorized in 2000
- ?? \$4.1 million for debt service on farmland preservation bond issue authorized in 2000
- ?? 3.2 million for merit-based bonuses for cooperative extension employees
- ?? 6.3 million for administrative support
- ?? \$38.9 million for agricultural development projects

35% of \$41.1 million to County-level projects

John-Mark Hack told us that merit-based bonuses are planned for the extension service. Ms. Bill Atkins questioned the merit-based bonuses and asked who are the cooperative extension agents. Mr. Hack explained that the bonuses are for all employees of the extension service and explained that one of the six priorities of the Long Term Plan is supporting local leadership. Part of supporting local leadership that the Agricultural Development Board felt was important was enhancing the Cooperative Extension Service network by rewarding the folks who are doing a good job and sending a message to those who aren't by making one time bonuses on a merit basis rather than across the board raises. The General Assembly decided to make that appropriation directly from the state fund rather than the Board doing it. Ms. Atkins responded positively and thanked Mr. Hack for the clarification.

On Farm Investments:

- ?? Cattle Genetic Improvement Program – Improving the genetics of Kentucky's cattle herd
101 Counties - \$7,104,757
- ?? Forage Improvement Program - Improve net farm income through improved forage quality, quantity and efficient use, as well as encourage science-based forage management decisions
93 Counties - \$13,301,328
- ?? Cattle Handling and Herd Health - Assisting producers with the purchase of handling facilities for beef and dairy cattle to allow for best management and health practices
87 Counties - \$8,599,003
- ?? Goat Diversification Program - Providing assistance in the areas of handling equipment, genet improvement, and the establishment and expansion of goat flocks
52 Counties - \$1,459,965

Charles Miller spoke on behalf of the beef industry and said that these first three programs have been very successful. He said that we have put a lot of dollars into this

and we sometimes wonder if these things are going to pay off. He assures us that they will. This fall we are probably going to sell between 50 and 60 thousand head of CPH Calves, compared to where we have been selling 10 to 12 thousand. Probably 4 years from now if we can sell 200 thousand head of CPH calves we can say these programs have been a true success. We will be able to see and reap the benefits of the genetic improvement program and the handling facilities program. He told us he knows of case after case of people who are being able to run and market on their farms. These programs are being successful and he assured us that over time they will be even more successful.

The goat program in his county started out two years ago with 2 goats to producers and now they have 23. Some of those have up to 150 nannies each. He told us that we could consider this a successful program if we can develop this market along with it. Mr. Hack responded by reminding us that the guiding principals that the Board articulated in September of 2000 was that they wanted to focus on the areas that were going to have the largest impact on tobacco farmers. Without any question, beef cattle and the improvement of the value of beef cattle herds is the area that has an impact on more tobacco farmers than any other single investment area that the Board has decided to put money into. The driving force behind the beef cattle improvement initiative has been the strong leadership of Mr. Miller and the Kentucky Cattlemen's Association, the Kentucky Department of Agriculture and the University of Kentucky. They put those model programs together.

Janet Johnson asked if a county had the need for diversification and had established a board for this program, had a small goat program that did not warrant a separate entity to administer that program, would there be any way to grandfather those programs together to offer the goat program without having to create all of the administrative structure. Denise Hoffman told us that in her area the Conservation District is administering the goat program. Mr. Hack responded and told us that we have to track the dollars for goats and the diversification program separately. Mr. Hack also told us the simplest way is for the council to decide to dedicate a dollar figure to the goat program. Administratively it can be attached to the same entity that is administering the diversification program. The Agricultural Development Board would need to hear from the County Council on how much of the county spending they would like dedicated to that program. The eligibility requirements and eligible expenses in the goat program are slightly different from the diversification program so we would need to keep them programmatically separate.

Mattie Mack raised the issue of the CPH program. She told us that when farmers participating in this program in her area took their cattle to the stockyards they had only two buyers and several farmers got out of the program due to lack of buyers. Charles Miller responded and told us that this is not the first time he has heard this. He told us that they have set aside monies for promotions of the sales for more buyers and they are working on internet sales. They are addressing these issues. He also told us that the larger sales were more successful. Mr. Hack told us that it is important

that people tell us about any problems we have with any of the model programs or the state investments. Mr. Hack continued with the presentation.

- ?? Agricultural Diversification Program – Development of new agricultural products and new ways of dealing with existing agricultural commodities
49 Counties - \$4,055,318

New Market Development Investments: **State-Level Investments**

Mr. Hack told us that when we say New Market Development investments, we are referring to projects that put products from a certain agricultural sector in contact with a market that they didn't have before or projects that expand the ability of a particular applicant within a particular sector to further service a market that they were already involved in.

- ?? Horticulture - \$595, 000 in county funds and \$7.4 million in state funds totaling over \$8 million in new markets
- ?? Livestock - \$4.3 million
- ?? Grain Products - \$12.4 million in new value added markets
- ?? \$6.4 million in new markets for items that cant fit into one of those categories.
- ?? 13.5 million down payment further development of comprehensive farm marketing system that includes farms markets on a local level, new market developments on a regional level and new markets on a statewide level

44.8 million dollars in state funds has been committed to new market investments.

John Berry asked for further explanation. Mr. Hack explained that most of the 8 million dollars in horticulture markets has gone into assistance to 4 produce processing and marketing cooperatives in Owensboro, Horse Cave, Georgetown and Monticello to expand their processing facilities to enable them to enlist more producers. The markets vary with each of the cooperatives, West Kentucky Growers Cooperative bought a Hydro-cooler that carries cold water that chills the sweet corn and allows them to pack it in a was that their market in Florida (Pioneer Growers Cooperative) demands; in Horse cave they enlarged their processing line to enable them to better handle and pack cantaloupes that they are selling to grocery retail outlets inside and outside the state; examples of livestock markets pertains to either projects on the scale of River Ridge Country Style Meats, (family operated meat processor that offers processing facilities to producers in their area) to direct market their on meat products or a major livestock marketing center in London and Laurel County which functions much like a stock yard in the sense the producers bring in their cattle to a common facility for sale but is different in that the cattle are grouped for like characteristics and targeted at markets that are looking for those characteristics. It is a farm cooperative. On the grain entry, \$9 million of the \$11.5 million is committed to an ethanol production facility operated by the Hopkinsville grain elevator, which is the largest farmer owned cooperative in the southeastern United States. It is impacting 2300 farmers in 30 counties with farmer owned value added processing facilities. This has

put them into a new market for their grain. Mr. Hack offered other examples and continued with the presentation.

- ?? Value-Added Processing and Market Development – Hopkinsville Elevator Cooperative
- ?? Value Added Processing and Marketing – Jackson's Orchard & Evans Orchard
- ?? Value-Added Processing and Market Development – Little Kentucky Smokehouse - \$950,000 forgivable loan
 - o 50 jobs, \$2.5 million processing plant
 - o Upon award of Agricultural Development Funds, a French food-processing company, Fleury Michon, commits an \$8 million plan that will employ 250 people.

John Berry asked if a forgivable loan is the same as a grant. Mr. Hack explained the difference. He also told us that a forgivable loan has certain terms and conditions attached that they must meet or they will have to repay the loan at a 3%. Mr. Hack continued with the presentation.

- ?? Value-Added Horticulture – West Kentucky Growers Cooperative
- ?? Technical Assistance –
 - o Kentucky Center for Agricultural Development & Entrepreneurship
 - o Kentucky Center for Cooperative Development

Mr. Hack told us this is an entity started by the Burley Coop and the Department of Agricultural with a USDA grant. He told us the Board put \$400,000 into this Center, which is based in Elizabethtown and exist for the purpose of working with individual producers and groups of producers who have an idea, but don't have the experience or the wherewithal to know what kind of business structure they should try to develop their idea through. This group is providing technical assistance. The Center is being led by Larry Snell.

- o Kentucky Beef Network

Charles Miller told us the purpose the beef network it to try to coordinate the beef industry in the state and to get the maximum benefits for the investment dollars from the ADB in regard to previously discussed areas. We have 20 individuals working with extension agents, working one on one with the farmers in regards to beef production related issues. We are beginning to see the fruits of that effort with the CPH program being an example. Also, the interest we are receiving in the Master Cattlemen's program, which is part of the Beef Network. We have a waiting list. We presently have 425 people involved in the Master Cattlemen's program with a waiting list for the next round almost filled up. We are working with some people on getting a video auction and internet auctions up and running.

- ?? Technical Assistance – Community Ventures Corporation
 - o Delivering specialized business planning training and technical assistance to approximately 679 farmers
 - o Providing SBA micro loans ranging from \$500 to \$35,000 to approximately 247 agricultural entrepreneurs

John-Mark Hack told us that with a \$750,000 investment of state funds with 4 Small Business Administration micro-lenders, Community Ventures Corporation, Purchase Area Development District, Kentucky Highlands Investment Corporation and Buffalo Trace Area Development District, they were able to access \$3.5 million in federal funds for the purpose of high-risk loans to farmers who are looking to diversify their operations. These loans are to farmers who couldn't go to their banks and get conventional credit due to lack of production history or they cannot properly collateralize their loans. This is not just lending, it also involves technical assistance in business planning training. He anticipates seeing the Agricultural Development Board more involved in programs of this nature, involving local lenders, to keep them involved in the business of Agricultural loans. We are in the process of revitalizing the Agricultural Finance Corporation. This organization was chartered by the General Assembly in 1984. It has statutory authority to do some very innovative agricultural finance things. The board hasn't met for 3 years due to lack of funding. We are asking the Governor to reappoint members to that board, revitalize that corporation and develop programs that they would then submit to the ADB for funding that would, include lenders and the Capital Access Program. We hope to unveil some of those programs no later than January. He explained a Capital Access Program as taking a small amount of Agricultural Development funds and establishing a loan loss reserve fund for banks, so they can make high-risk loans to farmers without risk of losing more than a small percentage of the loans they are making. This enhances the creditworthiness of our producers that are trying to get into other areas and keeps our local lenders in that important business of Agricultural lending. Mr. Berry asked if the Agricultural Development Fund money would be substituting for what was supposed to be an appropriation through the Agricultural Finance Corporation. Mr. Hack answered, yes. He also told us he believes that the General Assembly's intent was to keep lenders involved on a variety of levels. He also told us that there are no specific financial incentives to either in-state or out-of-state producers of food products that are tailored to meet their needs. Another statutory authority the Agricultural Finance Corporation has is to fashion those kinds of financial incentives that can attract processors to the state or work with processors in the state to enlarge their capacity providing they are willing to procure Kentucky products. The Agricultural Development Board has the authority to do this but it is not specific in statute. The Agricultural Finance Corporation, working with the Kentucky Department Agriculture has the specific tools that nobody can question in increasing access to capital. Jim Naïve asked for examples. Mr. Hack told him that he would provide him examples. He did say that they are all farm based, individual producer based and not related to tobacco. Ms. Mack raised the question, "can buffalo be pastured with cattle?" Mr. Hack told her no, because buffalo are not domesticated. There was some discussion on this and the issue of imported products verses locally grown products. Also, comments were made about buffalo meat compared to beef.

?? Youth Development – FFA & 4H

Two \$1 million endowments have been established for both 4H and FFA for individual diversification projects.

?? \$34.7 million in on farm investments

?? \$44.8 million in new market development

- ?? \$31.3 million in current new market development
- ?? \$13 million encumbered
- ?? \$16.6 million that includes funds for the Kentucky Center for Agricultural Development & Entrepreneurship, FFA & 4H endowments, Center for Cooperative Development, Community Ventures project and the Horticulture Council received \$2.6 million for new field trials and marketing assistance.
- ?? Total investments to date \$96,242,405
- ?? 1,460 proposals considered since January 2001
- ?? 762 proposals approved
- ?? Total investment of \$96.2 million, almost all of which has to be matched by outside dollars. Thus far the Agricultural Development Fund has had a total economic impact in excess of \$96.2 million dollars.

Mr. Hack commented on the Agricultural Development Board and said that there is no other board in Kentucky that works as hard or is as committed as this Board. He also told us how other states are using their funds. North Carolina set aside \$140 million for trust fund programs to help diversify their tobacco farmers. They are now applying it to their general fund to offset their budget shortfall. Tennessee has committed 3 years of its \$180 million tobacco settlement revenue toward its base budget for fiscal years 2001 – 2003. No other tobacco state is even approaching what Kentucky has committed. Mr. Hack went over the six priorities of the Agricultural Development Board with further explanation on each item. He reminded us that we have copies of the slides he is presenting.

- ?? Kentucky Center for Agricultural Development & Entrepreneurship
 - The Board set aside a \$4 million pool of funds to provide technical assistance and business development services to individual producers. Our entire staff is basically fulfilling the mission that this organization set out in chartering the Kentucky Center for Agricultural Development & Entrepreneurship. We work with individual agricultural entrepreneurs and groups of entrepreneurs. We help with business plan development or we put them in touch with resources where they can get that help. That \$4 million dollars has been used to do market assessments in these different areas:
 - Biomass - using your hay or other waste material to burn in coal fired power plants as another source of energy. That study is almost complete and forthcoming.
 - Meat Goats – How many is enough? Where are Kentucky farmers going to make the most money, in meat stock or breeding?
 - Dairy Goats – How can Kentucky Producers be positioned to take advantage of the fact that people will pay an extraordinary amount of money for good goat cheese?
 - Aquaculture – Markets for fresh water shrimp hybrid striped bass, trout and catfish.
 - Vermiculture – Southern Kentucky Worm Growers – Market for worm castings, worm wine, and the worms themselves.

- Grape and Wine Industry – We just completed a study on this growing industry.
- Edible Soybeans – We are completing a study with the Soybean Association on these.
- Specialty Fruit – Upcoming studies on Blueberries and Paw Paws – Is there an opportunity for Kentucky producers in these areas?

The Kentucky Center for Agricultural Development and Entrepreneurship sponsored the Kentucky Opportunity Marketplace in January. We also sponsored Farm Family Education Expo's in conjunction with the Workforce Development Cabinet in Mason and Metcalf Counties. We have a contract with the small business development to provide agricultural specific assistance in all of their programs. We have sponsored new educational forums in Vermiculture. We have one upcoming in March on blueberries. We have also sponsored forums on edible soybeans; small-scale livestock production and farmers market development. We are looking for suggestions in market assessments and new opportunity forums. We are looking at linking up the Center's efforts with the Innovation & Commercialization Centers, which are part of the Office of the New Economy, to further enhance business plan development assistance for farmers. We are currently contemplating a major rural entrepreneurship development initiative in North Eastern Kentucky.

Susan Goddard told us that the Workforce Development Cabinet provided computer literacy training free of charge for Purdy Chicken as a result of contacts made at the Farm Family Expo.

Ms. Mack asked if we have record of how many tobacco producers we have in Kentucky. Mr. Hack responded that we have about 45,000 current producers. There was some discussion on the future of the tobacco industry in Kentucky. Mr. Hack emphasized the importance of the work that the Governor's Commission on Family Farms and the Agricultural Development Board is doing. The Agricultural Development Board's mission is to save farms. John Berry talked about the risk involved in farmers trying to change to a different crop or to cattle. He also asked about the action taken on the Commission's recommendation to the Board on the Long Term Plan. Mr. Hack responded that they condensed the draft plan and simplified it by identifying 6 major areas that they wanted to give attention to. He told us that he believes the principles involved in the recommendations made by this group are implicit in the plan that the board adopted. There was some further discussion on this issue.

Joel Neaveill told us that the media was notified of this meeting.

Jeff Hall commented about how impressive it is to see where the Agricultural Development Board is today compared to where it began. He gave credit to the Board, John-Mark and his staff.

Mr. Hall gave a presentation on the Farm Bill. He told us that this Farm Bill continues our nations more than seventy-year history of Federal Government involvement in our

farm economy. Although, we can debate the success or failure of our national farm policy, it has always been there to provide some stability in an otherwise relatively unstable industry. This latest Farm Bill was signed into law less than five months ago. It took about 2 years of congressional hearings to get to the point where the President signed the bill in May 2002. He told us that this is probably a more comprehensive and complex Farm Bill than we have ever dealt with before. It is not simply just farm programs anymore. He talked about the 10 titles. He told us that this farm bill dedicates more dollars to conservation and environmental issues than any farm bill in the past. The largest proportional increase in funding is in the area of conservation. This title may end up putting more dollars into Kentucky's economy than any part of the Farm Bill. 60% of the money has to go to livestock producers. It models very closely what we have been doing with our own cost share program. We are prepared to take advantage of some of these federal dollars to match with our state dollars to really make some significant changes in conservation practices. In the Rural Development title there are sizable dollars included to provide Broad Band. He told us that most of the dollars in private industry that have been invested, to increase access to computers and technology have been invested where they get a faster return. The rural part of Kentucky and the Nation has been left out. He has met with John-Mark's staff in trying to make a connection with the Rural Development Administration on Kentucky accessing some of the dollars in that title. He also talked about the Energy title He told us that there are millions of dollars in this title. Mr. Hall told us there are similarities and differences in this Farm Bill and previous Farm Bills. In the past most dollars that came from federal farm programs tied into some type of set-aside. We have, since 1985 used the same acreage and yields in determining how much money a farmer gets. This Farm Bill allows us to go in and update acreage bases and crop yields to establish a new baseline for receiving federal payments. In the last seventeen years we have increased yields dramatically in some areas. He also told us that this Farm Bill covers more crops than in the past. We have added soybeans and several other types of crops. We have added dairy programs. We had a dairy program before, but this one has a direct payment component to it. It is targeted toward small dairy farmers. He told us that if a farm has 2.4 million lbs. of milk sold they don't get any more payments or if they have much over 140 cows they will not be eligible. It has been estimated by 2 or 3 agricultural policy groups that Kentucky has more dairy farmers who will qualify than any other state in the country, because we have smaller dairy operations. Mr. Berry asked for an explanation of (revises and rebalances the loan rates). Mr. Hall explained by using the example of commodity loans, he told us that these loan rates have been readjusted nationwide. These loan rates will be different from county to county. Mr. Berry asked how this differs from target prices and efficiency payments. Mr. Hall responded that the loan rate is, sort of the floor that exist and the target prices are a higher number. Both of these numbers work together and are used to calculate how much a farmer would get. There was some further discussion on this issue. Mr. Hall told us that as long as the farmer is raising a covered commodity he could establish a base and become eligible for payments. He also told us that a few years ago, honey and wool were taken out of the federal farm programs. In this Farm Bill they are brought back. He told us that if you are a grain farmer with an established base and yield you will get a direct payment. If

you are a grain farmer that does not participate you can still be a part of the loan program. Payments will be made annually. There is a lot of flexibility in this Farm Bill that wasn't there in the past. He talked about advance payments and updating bases. Mr. Berry asked what constitutes production evidence. Mr. Hall responded, sales receipts, warehouse receipts. For people who fed their grain, they will need to prove that they have livestock to dispose of the grain. Even if they fed all of their grain, they won't be left out. Sign-up is required each year to be a part of the program. We are doing informational meetings to help farmers understand what their options are. Ms. Mack asked if the Farm Service Agency has anything to offer due to the poor crop year we are experiencing. Mr. Hall told us that Congress is working on a disaster bill that has already been through the senate and is being worked on in the house. As soon as it is worked out that money will be provided to us in terms of some type of disaster program. He understands there will be some provision in there to cover tobacco. Until congress finishes this we don't have the details. Mr. Hall showed the target prices for each different type of crop and told us how to calculate the payments. This bill is retroactive. We are trying to get all of our payments made by the end of our federal fiscal year. About \$200 million has gone out in program payments. There is a final direct payment for 2002. Those payments will be made in October or November. There was some more discussion on prices. Last fiscal year Kentucky's Farm Service Agency sent out over \$430 million to Kentucky farmers. We made payments to over 260,000 people in Kentucky. This year we won't be nearly that high. Last year in Kentucky, federal farm program payments accounted to 40% of the states net farm income. Kentucky will receive \$15-30 million additional dollars because of the changes in this new Farm Bill. In 1996 there was a plan for the federal government to get out farm programs for good. From 1996 – 2001 the federal government put more money into federal farm program payments than ever before in history. We are seeing almost a \$6 billion disaster program on top of this. Federal farm programs are going to be an important part of our nations and Kentucky's agriculture in the foreseeable future. Mr. Hall express that he feels that the federal farm program payments are pretty cheap insurance to provide stability to the farm sector. Without it, we would not have as many people still on the farm. There was some further discussion on this bill and the benefits or lack thereof to the small farmer.

Susan Goddard talked about dependence on foreign oil and asked if there is something being done in the area of ethanol. Mr. Hack told her that the Agricultural Development Fund's largest investment to date has been with a farmer owned ethanol production facility. We have also financed a study looking at the use of biomass in coal-fired power plants. Mr. Hall told us that there is an energy bill that is currently in conference in Washington that mandates increased use of ethanol at the pump. If that bill were to pass it would increase demand for corn in this country by 300 million bushels. This would obviously increase the price.

Ms. Mack entertained the Commission with a song.

Jeff Harper gave the Phase II update. He told us that our application deadline was September 16. Each Farm Service Agency office and each County Extension office

will be receiving their payment register on October 1. This register will list all of the crop years on one document. On November 15, the Kentucky Tobacco Settlement Trust Corporation will be informed by the National trustee, J.P. Morgan Chase Bank, of the exact amount available for distribution this year. We expect to receive a little over \$130 million this year. This will be our largest payout to date. The amount of money is supposed to maintain itself until 2009 and 2010. The checks will be issued December 30. A couple of days before that, each recipient will get an explanation of payment letter. This payment will be considered 2003 income.

Joel Neaveill told us about a program called the Farm Viability Enhancement Program, which was developed by the Massachusetts Department of Food and Agriculture. Motivation is to keep land in agricultural use. They want to preserve farmland. They want to improve individual farms economic viability through encouraging more value added, direct retail, enhancement of product diversity and improving environmental practices on the farm. Their goal is to protect agricultural land and open space more economically. They also want to Increase access to capital to farmers by accessing technical assistance no longer available elsewhere. They don't have as active extension service as we have in Kentucky. They want to improve business and management skills among farmers. One part of the selection criteria for inclusion in this program is the farmer must own a minimum number of acres. In Massachusetts the minimum is 5 acres. In Kentucky this minimum would be 10 acres. The other criteria are as follows:

1. The degree of threat to the continuation of agriculture on land due to financial instability, urban encroachment, management practice, management changes which may negatively impact continuing agricultural activity.
2. The number of acres to be placed in the program. How much they are offering to be placed into the program. The intensity of use, the significance and contribution to the state agricultural industry.
3. Whether the farm has diversified in retail value added activities previously.
4. The number of years and type of agricultural experience of the applicant.
5. The degree to which the project would accomplish environmental objectives.

Ability and productivity of the land for agricultural use based on its soil classification, physical features and location. The farmer submits an application form and other required documents to the department (Massachusetts Food and Agriculture). They review the application based on previous criteria. A team is organized for each farm selected. It is comprised of professionals from various fields, agricultural, marketing finance management and environmental sciences. Then the farms financial records, management practices, equipment, buildings and natural resources are inventoried and assessed. Based on that assessment the team will make recommendations for improving the financial and environmental viability of that farm. They make suggestions based upon what that farmer can and cannot do. The recommendations are prioritized and placed on a timeline for implementation. At the conclusion of those

recommendations they basically have a business plan for what to do with the farm in the future. Any farmer who has a plan may request funding in exchange for an Agricultural Use Covenant for a term of years on the property. The benefit to the farmer is they receive intensive business planning which is designed to look at ways to diversify the farms operation without cost to them. They provide the business planning in Massachusetts for free. It doesn't cost the farmer anything. This is Phase I of the program. It is a competitive process. Not every farmer that submits an application will qualify. If the farmer agrees to implement the plan and sign a non-development covenant, the farmer may receive funds to help implement the changes recommended in the plan. In Massachusetts farms larger than 30 acres commit to a 10-year covenant. They can get grants up to \$40 thousand. Farms 30 acres or smaller commit to a 5-year covenant and get grants up to \$20 thousand per farm. In Massachusetts this program has been in place since 1996. 186 farms have been selected to participate in the programs. 152 farms have participated in Phase I. 139 of those farms are expected to complete Phase II. Connecticut, New Jersey, New York have similar programs in place. Currently in legislative phase Maryland, Virginia and Maine. Mr. Neaveill asked us if Kentucky farmers would be willing to participate in this program and where should such funding come from. His question to the Commission is to whether they believe this is something that is attractive to the small family farmers. Mr. Neaveill listed several of the projects, which were varied. There was some comparison made between this program and the Kentucky Center for Agricultural Development and Entrepreneurship. There was also some discussion about Agri-tourism. Mr. Neaveill told us that this is the first group that this program has been introduced to. Mr. Berry said it might be a good idea to look at how this differs from or might compliment the PACE program or the Entrepreneurship program.

Next Meeting: - Joel Neaveill told us the next meeting will be October 23 – Location to be determined.

Meeting Adjourned at 3:00pm

*** Copies of handouts are available at the Governor's Office of Agricultural Policy**